Testimony of

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Before the

House Agriculture Subcommittee on Conservation, Credit, Rural Development and Research

Washington, DC
May 2, 2001

Chairman Lucas, Ranking Member Hilliard, Members of the Subcommittee, I am Leland Swenson, President of the National Farmers Union. I am here on behalf of the NFU's 300,000 family farmer and rancher members to encourage you to take strong action to alleviate the impact of higher energy input costs that are affecting the lives and incomes of family farmers and ranchers, and distressing our nation's rural economy. I commend you Mr. Chairman, and Mr. Hilliard, for convening this hearing on the energy supply and demand issues affecting agriculture and our industry's relationship to the development of a comprehensive energy policy for the U.S.

BACKGOUND

The cost and availability of reasonably priced energy resources as direct and indirect agricultural inputs are critical factors that affect the economics and efficiency of American agriculture. In addition, agriculture represents a tremendous opportunity for the development of alternative, renewable energy supplies that are consistent with our environmental goals, desire for greater energy self-sufficiency and as a factor in rural economic development.

America's family farmers and ranchers are already suffering from low commodity price levels not seen in decades. Reductions in market sales values make it impossible to offset the increased production costs associated with energy and other input costs now plaguing rural America. Farms and ranches are dependent on stable and reasonable gasoline, diesel, LP gas and electricity prices and supplies to operate farm machinery, irrigation equipment and processing and storage facilities. In addition, the cost and availability of many other inputs necessary to farming and ranching operations are also directly influenced by energy prices from fertilizers and pesticides to our marketing and transportation system. According to USDA estimates, the extreme price volatility over the last few months will cost American producers up to $2 billion in increased input costs at the farm gate this year. It is likely these figures will be adjusted upward as the full impact of natural gas, gasoline and diesel prices reaching historic highs in recent weeks.

For these reasons we propose the following recommendations focused on expansion of ethanol and other renewable, bio-based energy products for use and in our nation's energy supply to help alleviate the impact of rising fuel costs and ensure supply reliability.

RENEWABLE FUELS SUPPLY

The United States is blessed with significant plant/crop renewable resources such as corn and soybeans that can play a major role in our Nation's energy policy. We can reduce our reliance on imported oil and enhance our environmental stewardship by using these and other crops instead of petroleum as chemical feedstock's to produce a range of fuels that are useful not only on the farm, but for all of our citizens.

RENEWABLE FUELS STANDARD

National Farmers Union supports legislation, specifically Senate Bill 670, offered by Senators Lugar and Daschle that establishes a Renewable Fuels Standard for gasoline used in the United States. We encourage the Members of this Subcommittee to consider sponsoring companion legislation in the House to compliment the bipartisan effort in the Senate that has resulted in this initiative.

In addition we support continuation of the current reformulated gasoline oxygen requirement (RFG) and oppose any action, including waivers that would weaken the Clean Air Act.

The Renewable Fuels Standard would require an increasing percentage of renewable fuel content in all motor fuel sold in the United States over a 10-year period, including a separate requirement for non-gas fuels, such as diesel.

By providing a measured and thoughtful approach a national shift from MTBE (methyl tertiary butyl ether), a fuel additive that has contaminated drinking water supplies in many states, to ethanol can be achieved. Regulations could be initiated to reduce and phase-out of the use of MTBE in all gasoline sold in the U.S., not just in Clean Air Act non-attainment areas or those regions currently requiring the use of reformulated gasoline. By gradually increasing the use of ethanol in the near-term, we can have a smooth transition from MTBE to an ethanol standard, and spread its use over the entire U.S. gasoline market as proposed by Senators Lugar and Daschle.

A Renewable Fuels Standard can triple the demand for ethanol over the next ten years while maintaining the provisions of the Clean Air Act and allowing for the elimination of MTBE. Ethanol is an environmentally friendly alternative to MTBE, that both reduces air pollution when used as vehicle fuel and presents fewer environmental hazards in the transport and storage of the product. We should actively seek ways to expand its use in the near term and over the long run.

We believe this approach will help avoid supply and pricing instability, preventing possible disruption of the domestic gasoline market. This can be achieved by providing a solid foundation for growth of the ethanol industry that balances its utility as a fuel oxygenate with an increasingly important value as a domestic fuel source that reduces our dependence on oil imports.

In addition to its direct consumer and environmental benefits, enhanced ethanol and biodiesel demand policies will help improve farm income by increasing demand for feedstocks such as corn and oilseeds, thereby reducing the level of government outlays for agricultural support programs. Furthermore, by stimulating utilization, new investment in processing facilities for ethanol and biodiesel will be necessary, providing additional opportunities for producers to participate in adding value to their commodity production through farmer-owned cooperatives.

The Government response to the MTBE problem, whether state or federal, must assure the continued growth of the ethanol industry. We believe the future of the ethanol industry depends upon the construction and operation of relatively small ethanol facilities throughout the nation, such as the production facility that is proposed to be built in your district Mr. Chairman. We believe that whatever legislation is developed the needs of both small and large ethanol producers must be accommodated in an equitable manner.

RENEWABLE ENERGY RESERVE PROGRAM

As you are all aware, while we currently produce a surplus of commodities that can be effectively utilized for energy production, agriculture remains subject to the possibility of reduced crops due to adverse growing conditions such as weather. In fact one recurring criticism of the ethanol fuel industry has been that reliance on ethanol as a motor fuel component, places the country one drought away from a fuel shortage.

In order to ensure our reliability as a supplier of food, feed and fiber products as well as bio-energy feedstock, National Farmers Union supports the establishment of a renewable energy reserve program that would be isolated from the commercial food and feed markets, and would help ensure our long-term commitment to the renewable fuels industry.

The program would envisions that the government, through the Commodity Credit Corporation (CCC), would purchase a limited amount of commodities such as corn, that would be dedicated to renewable energy production. We believe the limit should be approximately the needs for one-year's renewable energy production. CCC would provide crop producers the opportunity to store these commodities on their farms thus earning storage income. Should commodity prices rise appreciably, i.e. in excess of 100% of the full economic cost of production, that would normally result in a contraction of bio-energy production, the government would release all or part of its reserve to energy producers at the procurement cost. This would reduce the average feedstock costs for renewable fuel and provide both production and price stability. The maximum level of the reserve should be adjusted periodically to reflect projected increases in demand.

About 600 million bushels of corn or other biomass equivalent would need to be purchased to fulfill our current needs. This would result in an increase in the producer price for corn of $.24 - $.36 per bushel for all U.S. corn production. During this period of commodity stock accumulation and depressed producer prices, the reserve would serve to substantially enhance current farmer commodity prices and incomes while reducing government farm program outlays.

The creation of a renewable energy reserve would require the restoration of authority the Secretary of Agriculture was traditionally been granted prior to the limitations imposed by the 1996 FAIR Act.

Procurement outlays, at average USDA prices projected for corn of $1.86 per bushel would total approximate $1.1 billion to purchase the 600 million bushels currently utilized for ethanol production. Storage, estimated at $.30 per bushel per year would require an additional $180 million. However, the program would result in significant farm program savings for corn and other market competitive crops. The Food and Agriculture Policy Research Institute, FAPRI, estimates the 2001 Loan Deficiency Payments for corn at $300 million. Implementation of the reserve would likely erase that projected outlay in total.

Although this reserve program provides improved commodity prices for program crop producers by removing surplus commodities from the commercial market, it has a negligible impact on the livestock industry while these reserves are held in storage. When commodity prices rise to the point that feed grain reserves are released for renewable energy production, the livestock sector will also become a beneficiary as a result of the byproducts that would enter the market dampening the effect for that sector of substantially increased grain and oilseed prices that triggered the release of the reserve.

RURAL ELECTRICITY SUPPLY

We are also very concerned about possible wild fluctuations in the price of electricity to our rural members. It appears the electricity industry is following in the footsteps of other energy sources in terms of a "boom and bust" economic cycle that increases overall economic instability. Market forces will tend to drive electric prices, and in many cases profits for production or distribution companies, up when power is in short supply, as we have experienced in California. Agricultural producers, especially those engaged in dairy farming or irrigated crop production, have few options to avoid devastating production and income losses resulting from increased electric rates and rolling blackouts.

If electricity prices follow the short-term fluctuations that other energy prices have taken, things will only get worse. Our members depend substantially on electric cooperatives for a reliable and plentiful source of electricity, that have a direct effect on family farmers and ranchers efficiency, productivity and profitability. While our electric cooperatives are doing their best to transition towards a competitive environment in the wholesale and retail electric markets, they are also in need of extra generating capacity and profit margins to avoid the expanded potential of blackouts and brownouts in other parts of the country. Electric cooperatives have always served our rural members well, and we are steadfast in our support of efforts to help ensure their future during these difficult times.

As an aside, let us clearly understand that consumer-owned electric cooperatives are not part of the problem in California or the west. Rural Electric Cooperatives are consumer-owned, stable suppliers of electricity to rural America. They continue to create jobs and invest in business and infrastructure opportunities in rural America.

National Farmers Union members are historically proud founders, owners, and operators of our nation's rural electric cooperatives, and are vitally linked to their continued success. We are also sensitive to balancing environmental and energy concerns, and urge investment in new generation facilities, including renewable, alternative sources of power generation that include wind, solar, biomass, methane and thermal.

CONCLUSION

A national Renewable Fuels Standard will allow encourage the expansion of renewable energy resources from agriculture that will reduce our dependence on foreign oil, be an integral part of a national energy plan, provide enhanced environmental benefits and, importantly for producers, boost farm income in both the short and long-term.

In order to stimulate the viability and growth of the renewable energy production sector, it is important that a limited commodity reserve be established to stabilize the availability of affordable energy feedstock that is isolated from the traditional, commercial agricultural market.

Thank you again for the opportunity to represent family farmers and ranchers before the Subcommittee. I look forward to responding to any questions you or your colleagues may have at the appropriate time.